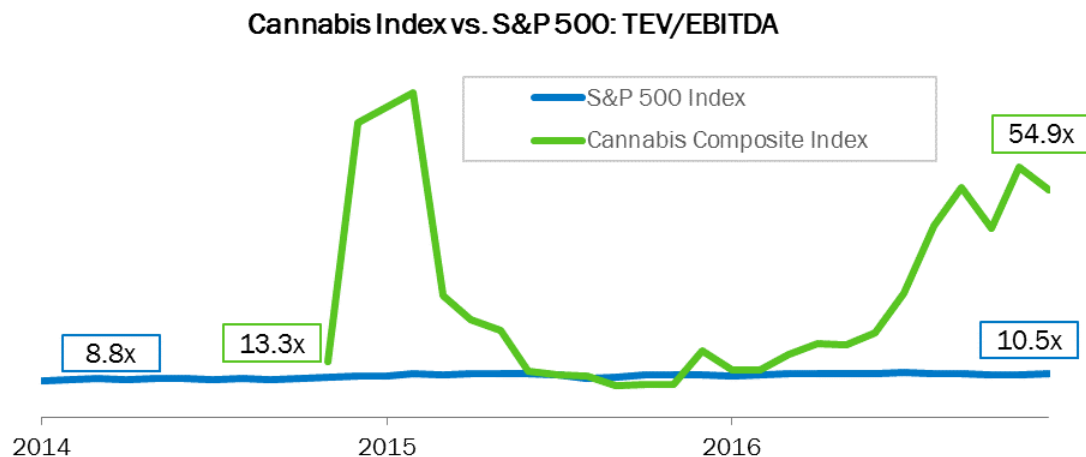


What's the Deal: The Future of Recreational Marijuana in Canada

Reading over our deal summaries week after week, I've been struck by a common thread...cannabis. Each week, there is at least one cannabis-related deal on the list. Sometimes the buyer is strategic and sometimes financial, but there it is.

At the same time, valuations of publicly traded cannabis companies have reached lofty heights, as south of the border, more states legalize the use of cannabis in some form, and here in Canada, investors anticipate a market expansion with the impending legalization of recreational marijuana.



Because of the state of current Canadian law, reported deals generally relate to medical marijuana. But given the activity in the sector, and the recently released report [by The Task Force on Cannabis Legalization and Regulation](#), we thought it would be interesting to take a look ahead at future prospects for the legalization of recreational marijuana in Canada.

What you should keep in mind:

It's not legal yet

The task force report was released on December 13, 2016, with input received from a wide-ranging set of stakeholders. The report is not law, but rather, a comprehensive set of recommendations to guide pending legislation on the legalization of recreational marijuana. The federal government expects to introduce draft legislation in the spring

of 2017, with the law coming into force after being passed by Parliament, and once regulations have been developed^[1].

No recommendations on the grandfathering of medical marijuana producer licenses

We will have to wait for the draft legislation to gain insight on this point. Worthy of note, however, is the task force recommendation that federal regulation of the production of cannabis and its derivatives should draw “on the good production practices” of current medical marijuana producers.^[2]

*“I think that marijuana should not only be legal, I think it should be a cottage industry...I’m sure it would be even better if you could grow it with fertilizers and have greenhouses.” - **Stephen King***

Some of the Task Force’s key recommendations:

- A minimum age of purchase of 18, but leaving provinces and territories free to harmonize with their minimum alcohol purchase age;
- Restrictions on advertising and promotion should be similar to those related to alcohol and tobacco; packaging should be plain, not “appealing to children”, opaque and child resistant;
- Edibles deemed to be “appealing to children” should be prohibited, including products that resemble or mimic familiar food items. In addition, a maximum amount of THC/serving should be set and packaging labeled with a THC symbol;
- Wholesale distribution and retail sales should be regulated at the provincial level;
- Mixed products should be prohibited i.e. cannabis mixed with alcohol, nicotine, caffeine;
- Potent strains of cannabis should be taxed at higher rates to discourage purchase.

As a current candidate for leadership of our Conservative party once said:

*“You either make it illegal, in which case you support a huge underground economy or you tax it within the limits people can afford.” – **Kevin O’Leary***



The federal government has recognized this in their move towards the legalization of recreational marijuana. And we expect that down the road, our deal summaries (and deal activity) will reflect a new legal framework.

If you are interested in this sector but don't feel like reading the task force report in detail, please feel free to contact us here at Valitas at karen.fisman@valitas.com for more information.